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UNCLAS TAIPEI 000064

SIPDIS

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/RSP/TC, EAP/EP

USTR FOR WINTER AND WINELAND

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER  
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY PLEASE PASS TO OCC/AMCMAHON  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Capital Inflow Lifting Taiwan Markets

1. SUMMARY. Expectations of a weaker U.S. currency in 2006 have prompted portfolio investors to move capital from the United States to East Asia recently. Huge capital flows have contributed to substantial rises in stock prices and appreciation of currencies across the region. In the first six trading days of January 2006, Taiwan's stock price index rose 3.0%, and the NT dollar gained 2.7%. Higher stock prices and strong Asian currencies may continue for several months. END SUMMARY.

#### Money Flows In

2. The U.S. Federal Reserve Board has raised its benchmark interest rate 14 times in the past year and-a-half, but analysts expect the FED to now hold interest rates steady. In addition, U.S. non-farm employment reported in early January did not increase as much as expected. This expectation has weakened the US dollar (USD) and prompted portfolio investors to redeploy capital from the United States to East Asia. According to an executive at a U.S. bank in Taiwan, the capital influx is driving up stock prices and currencies throughout East Asia.

#### Stock Market Moves Up

3. In Taiwan, the huge capital inflow has far outweighed the adverse effect of President Chen Shui-bian's 2006 New Year Message calling for tighter cross-Straits economic control (proactive management, and effective liberalization). In the first six days of January 2006, Taiwan's stock price index rose 3.0%, higher than the rise of 1.95% in Tokyo, 2.4% in Singapore, and 1.17% in Seoul but less than the rise of 4.2% in Jakarta and 3.86% in Bangkok. Taiwan's stock price index declined 0.2% on January 6 (Friday) but rose 0.7% on January 9 (Monday) to 6,742.39 points.

#### NT Appreciates

4. On the foreign exchange market, the NT dollar (NTD) gained 2.7% in the first six days of January to NT\$32.016 per USD. The NTD's gain was more than the appreciation of any other Asian currency, including 1.39% for the Japanese yen, 2.4% for the South Korean won, 1.05% for the Singaporean dollar, and 1.78% - 2.34% for Indonesian and Thai currencies. The NTD lost 18.2 NT cents on January 6 (Friday) but the loss was far offset by a gain of 24.6 NT cents on January 9 (Monday) to NT\$31.952 per USD.

5. According to market participants, capital recently flowing into East Asia is short term, mostly from U.S. retirement funds. Analysts believe that the investment funds going into regional stock markets will stay for at least three to six months. AIT believes that higher stock prices and a stronger NTD (against the USD) will prevail throughout the first half of 2006, buoyed additionally by the strong attraction of investing in Taiwan's LCD/TFT (flat panel display) industries, which anticipate a very good year.

Keegan